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THE WHITE HOUSE

WASHINGTON

~~SECRET/~~SENSITIVE

December 31, 1981

MEMORANDUM FOR THE VICE PRESIDENT
THE SECRETARY OF STATE
THE SECRETARY OF THE TREASURY
THE SECRETARY OF DEFENSE
THE COUNSELLOR TO THE PRESIDENT
THE DIRECTOR OF CENTRAL INTELLIGENCE
THE UNITED STATES REPRESENTATIVE TO THE UNITED NATIONS
THE CHAIRMAN, JOINT CHIEFS OF STAFF

SUBJECT: Special Situation Group Meeting

There will be an SSG meeting in the Situation Room of the White House at 11:00 a.m. on January 2, 1982. Attached is the agenda and papers to be used at the meeting.

FOR THE PRESIDENT:

James W. Nance
Acting Assistant to the President
for National Security Affairs

~~SECRET/~~SENSITIVE
Review on December 31, 1987

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AGENDA

SSG Meeting - January 2, 1982

I. Opening Remarks - Vice President Bush

II. Political Assessment - Ambassador Stoessel

   A. Foreign Reaction to U. S. Actions

III. Intelligence Assessment - Admiral Inman

   A. Possible Soviet Reactions to U. S. Actions Taken and to be Taken

IV. Financial Costs of Measures Contemplated Against the Soviet Union

V. Invoking the "Special Circumstances Clause" - Bud Nance

VI. Rescinding the International Harvester Export License -Bud Nance

VII. Measures to be Taken Against the Soviet Union - Bud Nance

VIII. Suggested Future Courses of Action - Mr. Meese

IX. Closing Remarks - Vice President Bush

Your Talking Points are keyed to this

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Review on December 31, 1987

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Contemplated Measure	Estimated Cost to USG	Estimated Cost to US Economy	Remarks
Phase I			
1. Expel all Soviet commercial representatives, close their offices and close our commercial offices in the USSR.	Negligible	Impossible to estimate, but small	If the Soviets retaliate by expelling US private commercial representatives, a loss of $10-15 million investment and possible loss of some export sales.
2. Reduce Soviet diplomatic representation in the US. Mandate that the Soviets can have no more diplomats in Washington than we do in Moscow. Reduce levels in both places.	None	None	Actually a small saving.
3. Cancel all cultural, scientific and academic agreements with the Soviet Union.	None	Negligible	A saving of some $1 million - $1.7 million.
4. Suspend negotiations on a new Maritime Agreement and impose strict port access requirements when the present agreement expires on December 31.	None	Negligible	
5. Escalate radio broadcasting and anti-jamming activities toward the Soviet Union.	$1 million	None	
6. Seek condemnation of the Soviet Union in international organizations, e.g., UN, ILO, CSCE.	None	None	
7. Ban Soviet fishing in US waters.	None	$4 million involving a US/Soviet joint venture.	There is no fishing now as such.

Review December 30, 1987

Contemplated Measure	Estimated Cost to USG	Estimated Cost to US Economy	Remarks
8. Halt export of all oil and gas equipment and technology to the Soviet Union.	None	$210 million/year for at least 2 years	
9. Propose an early meeting between Secretary Haig and Mr. Gromyko. At present it is scheduled for January 26-28.	None	None	
10. Cancel Haig-Gromyko meeting scheduled for January 26-28.	None	None	
11. Do not issue Caterpillar pipelayer license.	None	$90 million year one $200 million future years Loss of 1600 jobs	
12. Discourage tourist travel to the USSR.	None	Negligible	
13. Pressure US banks to suspend all credits to the USSR. Suspend negotiations on economic matters.	None	None	The funds would be lent elsewhere, but there would be marke[illegible] distortion costs and interference with th[illegible] regulatory system.
14. Delay or refuse to set new dates for talks on the "Long-Term Grain Agreement."	Impossible to estimate	Impossible to estimate	Would depend on eventual outcome
15. The four major grain suppliers to the USSR are the US, Canada, Australia and Argentina. Diplomatic action should be initiated to determine if we can get an agreement on a world-wide grain embargo.	None	None	

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Contemplated Measure	Estimated Cost to USG	Estimated Cost to US Economy	Remarks
16. Begin talks immediately with our Allies to see if we can get the Siberian Pipeline Project cancelled.	None	Same as (8) if successful, somewhat offset perhaps by sales to other countries for alternative projects.	
17. Call for an emergency CSCE meeting on Poland.	None	None	
Phase II			
1. Suspend Aeroflot service.	None	None which can be definitely foreseen.	Pan Am may lose valuable overflight rights.
2. Impose a total embargo on all high technology items to the Soviet Union.	None	Approximately $80 million in 1982.	
3. Suspend all validated export licenses to the USSR for electronics, computers and high technology categories, including International Harvester.	None	$300 million over a 5-year period for International Harvester plus (2) above. A loss of 300 jobs.	This may bring the bank rescheduling of the International Harvester debt into question.
4. Walk out of CSCE meeting in Madrid after denouncing the Soviets.	None	None	
5. Recall Ambassador Hartman.	None	None	
6. Discontinue INF talks.	None	None	Small saving.
7. Conduct high-level, high profile consultations with the Chinese.	None	None	

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Contemplated Measure	Estimated Cost to USG	Estimated Cost to US Economy	Remarks
Phase III			
1. Announce we consider the Helsinki Final Act null and void.	None	None	
2. Pull out of the MBFR negotiations.	None	None	Small saving.
3. Impose a total trade embargo on the USSR.	$6-8 billion in 1982/83 in price support programs.	$10 billion in 1982/1983 (75% agricultural) A loss of 160,000 jobs.	See Notes (1) and (below.
4. Ask Ambassador Dobrynin be recalled to the USSR along with the return of Ambassador Hartman.	None	None	
5. Close US ports to Soviet ships.	None	Negligible	

Notes

1. To some extent grains are fungible. Thus some of the export sales to the USSR we would lose would presumably be made up by sales to traditional markets of other grain exporting countries to whom the Soviets would turn. It should be noted that the greater the degree of cooperation we get from other grain exporting countries the greater would be our cost in price support programs.

2. Our highest dependency on the USSR for imports is in chromite, palladium and titanium sponge. The disruptions would affect catalytic converters for cars and specialty steel production. Higher cost alternates could be arranged in 3-9 months.

Measures vis-a-vis Poland

It has been suggested that as a carrot we may wish to offer Poland substantial assistance should the Martial Law measures be reversed. Our best estimate is that such a program would cost us at least $2,420 million through FY 1985 and more likely $5-6 billion. This on the assumption of a 20% share in program costs (the other 80% to be borne by our allies).

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Attachments

1. State Paper
2. Treasury Paper
3. Commerce Paper
4. USTR Paper

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DEPARTMENT OF STATE

Washington, D.C. 20520

SECRET

December 23, 1981

TO: NSC - Mr. Bailey

Norm -

Here is a quick estimate of costs on some of the items on the list:

-- Ban Soviet fishing: Soviet fishing was banned after Afghanistan and has not been allowed to resume. Soviet factory ships operate in U.S. waters to process U.S.-caught fish in a U.S.-Soviet joint venture based in Bellingham, Washington. Soviet purchases of U.S. fish under this arrangement were $4 million in 1980. Loss of those sales would be borne by Pacific Coast fishing interests. There would be no cost to the USG. Pacific Coast Congressmen have strongly supported the joint venture, which was exempted from action after Afghanistan. Soviet permits to operate in U.S. waters expire December 31. (The National Marine Fisheries Service (NMFS) has been asked not to renew the permits without further instruction.)

-- Let the Maritime Agreement lapse: The agreement expires December 31. Its expiry would impose no costs on the USG and negligible costs on the U.S. economy.

-- Suspend Aeroflot landing rights: No costs to USG. Pan Am (which dropped service to Moscow in 1978) would probably lose valuable overflight rights. Two U.S. firms (Gen Air and Capitol) that are seeking authority to serve Moscow would see their prospects disappear.

HK

Harry Kopp
State/EB/TDC

SECRET
RDS-2 12/23/2001

DEPARTMENT OF STATE

Washington D.C. 20520

December 24, 1981

SECRET

TO: NSC - Mr. Bailey

The following is an estimate of dollar costs of items 6 and 7 on the list:

Cancel All Academic, Cultural and Scientific Exchanges

-- Cultural and Academic Exchanges: The only existing cultural exchange is the reciprocal distribution of Amerika Illustrated in the USSR and Soviet Life in the USA. This exchange is greatly to our benefit. We spend $1.7 million on this exchange. Cancelling would result in a net saving of money, but would involve a distinct loss in USG access to the Soviet population.

The USG puts about $1.7 million annually into academic exchanges with the USSR. If these were cancelled immediately, the USG might have to spend several hundred thousand dollars to relocate the US students now in the USSR. If the program is allowed to continue until the summer and then lapse, it would cost us nothing in financial terms (we would of course lose a great deal in terms of our knowledge of the USSR).

-- Scientific and Technical Exchanges: Cancelling these agreements would technically place us in violation of our legal obligations since the agreements do not contain provisions for unilateral abrogation.

We could, however, announce suspension of further activities under the agreements without indicating that we were cancelling the agreements themselves.

If we did actually abrogate the agreements, the USG conceivably could stand to lose around $9 million, which is the value of equipment now in the USSR. Of this sum, $8 million represents the superconducting magnet used in the magnetohydrodynamics (MHD) project.

Suspension of activities without cancellation of agreements should cost nothing.

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RDS-2 12/24/2001

In many cases, we obtain valuable information from these agreements that would be costly -- and in some instances impossible -- to duplicate (NASA, for example, says it would cost us some 100 million dollars to get data on primate experiments the Soviets are conducting and sharing with us.

Escalate Radio Liberty and VOA Activities, and Increase Anti-Jamming

-- Voice of America: VOA informs us that it would cost approximately $1 million to expand broadcasting time in Armenian, Georgian, Tartar/Bashkir, Kazakh, and Byelorussian. This expansion could be implemented almost immediately. VOA currently broadcasts 17 hours in Russian and 14 hours in Ukrainian per day; they believe that an increase in broadcasting time in these langauges would be of marginal utility.

In order to circumvent jamming, VOA would be able to redirect some transmitters currently providing service to other countries and regions and direct them toward the USSR. This could be done quickly and at no cost.

-- Radio Liberty: The Board for International Broadcasting tell us that there is little that Radio Liberty can do in the short term to increase effective broadcasting to the USSR or to overcome jamming.

Thomas M. T. Niles
State/EUR

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"MARSHALL PLAN" FOR POLAND

A Cost Analysis

Introduction

This analysis of the costs of significant economic assistance to Poland follows the convenient pattern of (1) establishing a Base-Line, or minimal, program which would aim to stabilize the Polish economy at more or less its present depressed level, then (2) considering an increment to the base-line program that could put the Polish economy on a path of renewed growth and recovering standards of living. The Base-Line program does no more than cover the hard-currency financial gaps which the Poles themselves have projected as needed to support their economy in a decidedly lackluster condition, at least for the next year or two.

The analysis assumes adequate burdensharing by the Allies. In a total aid package, U.S. shares ranging from 10% to 30% can be justified, depending on the formula used. This analysis uses a figure of 20% as a reasonable compromise between these extremes, regarding which there are inter-agency differences of view.

The analysis focusses on the incremental costs of any new program. Thus, it assumes that debt rescheduling along the lines already agreed to by official creditors for 1981 (90% of principal and interest) will take place in any event (whether by agreement or by Polish default) and therefore represents "sunk" costs independent of any new assistance program. Rescheduling by the private banks (95% of principal only) is handled similarly.

The Base-Line Program

Poland's most recently projected financial gaps for 1981 and 1982 amount to $0.8 billion and $3.8 billion, respectively. At least $350 million of the former figure has to be seen as a potential bail-out of the banks (mostly European) for interest payments due in 1981.

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Declassification on 12/24/87

After 1982, the gap is expected to decline to about $2 billion by 1985. Because debt rescheduled in 1981 will start falling due after 1985, Poland's financial gap will increase again in 1986 and beyond, unless there is then a rescheduling of previously rescheduled debt. Leaving the years after 1985 out of consideration, the costs of a Base-Line or minimal assistance program for Poland over the medium term, by calendar year through 1985, can be estimated as follows:

New Money Beyond Costs of Debt Rescheduling	($ Millions) 1981	1982	1983	1984	1985	Total
Total Program	800	3,800	3,000	2,500	2,000	12,100
U.S. Share (20%)	160*	760*	600	500	400	2,420

* Likely to be concentrated in FY 1982, for a total of $920 million.

The Incremental Program

There has been no definitive analysis of what Poland's requirements might be, should the Western allies decide to go beyond the basic balance of payments support envisioned in the Base-Line sort of program outlined above. In its current depressed state, however, the Polish economy has considerable absorptive capacity for (1) inputs to agricultural production, (2) raw materials and intermediate goods for manufacturing, (3) spare parts and equipment to replace capital facilities damaged or run down over the past year, and (4) carefully selected new investment. Thus, an incremental program of $3 billion to $5 billion annually through 1985 likely would not be constrained by Poland's absorptive capacity and would stimulate the economy powerfully. Perhaps 10 percent of the total should be allocated to administrative costs, as effective economic management will be essential for a successful program; the Poles have demonstrated in the past that they do not possess such management capability. The U.S. share of the program, at 20%, would be $600 million to $1 billion annually.

Combined Costs

With the Base-Line and Incremental programs combined, costs to the USG, by fiscal years, through 1985, would be as follows:

($ Billions)

1982	1983	1984	1985	TOTAL
1.52-1.92	1.2-1.6	1.1-1.5	1.0-1.4	4.82-6.42

Other Key Considerations

-- A highly publicized Western program, especially one of the incremental variety, could well induce the Soviets to reduce or cease their support of the Polish economy, which amounts to $2 billion to $3 billion annually in terms of real resource transfers. This would leave the West with all its costs and few if any of the expected benefits of Polish economic resurgence; the West would simply be assuming costs previously borne by the USSR.

-- Without institutional reform of the Polish economy, by the Poles themselves and with Western managerial and organizational help, any assistance effort by the Allies would be largely wasted. It would simply prop up Polish per capita incomes for a few years, leading to new crises when the program ended. This is, in effect, what happened to Poland in the 1970's, when skyrocketing borrowing provided analogous income tranfers from the West.

-- All US assistance could and should be tied to U.S. exports, but the Allies are likely to do the same, so that there will be no feedback demand for US exports from Allied assistance.

-- Some "bail-out" of private creditors cannot be avoided, especially initially.

-- A coordinated Allied program, especially at the incremental level, could well restore the confidence of private lenders and lead to a resumption of private credits to the Poles. This could reduce the need for official assistance. Quantification of the extent of possible new private lending would be sheer guesswork. Confidence will return only over time.

-- Any assistance under either the Base-Line or the Incremental program should be highly concessional. Poland would be hurt rather than helped by new short- or medium-term debt. From a cost analysis perspective, this implies heavy current budget outlays that would not be recouped for many years.

-- A resurgence of the Polish economy implies increased exports to the West. Western countries will need to be prepared to maintain open markets for Polish goods, which implies policy-level resistance to the inevitable charges of dumping and market disruption that the US and other governments will face.

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UNITED STATES DEPARTMENT OF COMMERCE
The Under Secretary for International Trade
Washington, D.C. 20230

MEMORANDUM FOR: Dr. Norman Bailey
Director of Planning
National Security Council

FROM: Raymond J. Waldmann
Acting Under Secretary
for International Trade

SUBJECT: Economic Costs of U.S.S.R. Sanctions

You requested an estimate of the economic cost to the U.S. Government and economy of possible sanctions taken with respect to the U.S.S.R. as a result of the events in Poland. The following presents Commerce's analysis of economic costs; also included are comments on effects on the U.S.S.R. The estimated costs are yearly costs with no accounting for inflation, interest lost, etc. The costs reflect lost sales (exports) by U.S. Industry without taking into account downstream effects.

1. Expulsion of Soviet Commercial Officers in the U.S. and Recalling U.S. Commercial Officers in Moscow.

The direct cost to the U.S. Government is small. Retaliation against 28 U.S. company offices in Moscow--if offices closed down, loss of perhaps $10-15 million investment, and some administrative costs, plus loss off future business generated by offices. The indirect costs to the U.S. Government are difficult to estimate. The major indirect cost is tax revenues on export sales.

The cost to the U.S. economy is equally difficult to estimate. The commercial offices do generate trade but estimates vary from 1% to 10% of U.S./U.S.S.R. two way trade.

2. Halt Exporting of Oil and Gas Equipment.

The cost to the U.S. Government of halting the export of oil and gas equipment and technology is small (tax revenues on sales).

The cost to the U.S. economy would be approximately $210 million per year. In 1981 we approved approximately $90 million with $120 million still pending. The pending figure includes the Caterpillar license for 200 pipelayers. Another $80 million worth of oil and gas technology cases were denied in 1981 for the USSR. This $80 million is not included in the $210 million since it is unlikely that we would approve technology in the near future.

The effect of halting shipments to the U.S.S.R. will have a significant short term impact. The U.S. sells the best equipment, which the Soviets prefer. For certain applications--corrosive and high pressure environment--the U.S. has unique capabilities. The Soviets will have some problems to compensate for the losses. Most of the equipment can be purchased outside the U.S. (pipelayers, larger diameter pipe, pumps, etc.).

3. Rescinding International Harvester License.

Cancellation of the IH license will cost $300 million over a five year period. It will result in a loss of about 300 jobs and affect the financial standing of IH. The technology is available from Klaus in West Germany. Little cost to U.S. Government.

4. Impose Embargo on All High Technology.

Embargo of all high technology will cost the U.S economy approximately $80 million in 1982. We approve approximately $200 million per year in validated licenses but only $100 million is classified as "high technology." The rest is oil and gas equipment.

The Soviet Union will be affected by this move, especially if supported by our Allies. A multi-lateral embargo would slow down their economy. Most of the equipment can be acquired from non-U.S. sources; multi-lateral cooperation is imperative.

5. Total Embargo of Exports and Imports (1982).

Cost to U.S. Government approximately $1 billion to $4 billion because of price supports for agricultural programs.

Cost to U.S. economy is projected at $3.7 billion in export sales plus $1 billion to $2 billion in governmental outlays.

Exports are divided into $2.5 billion in agricultural commodities and $1.2 billion in non-agricultural commodities.

The import embargo costs are difficult to estimate since this could result in liabilities due to broken contracts. The U.S. imports approximately $450 million from the U.S.S.R., mostly in raw materials. Firms requiring these commodities must find alternate suppliers, especially in strategic minerals.

The top ten U.S. imports from the USSR are:

1980

Commodity	Value (Millions)
Ammonia	95
Gold Bullion	86
Palladium	55
Uranium flourides	35
Nickel	35
Metal coins	18
Palladium bars	12
Naphtha	10
Uranium compounds	9
Platinum bars	7
	453

Our dependency on the U.S.S.R. for the critical minerals whether among top 10 or not was in 1980:

Chromite	28%
Graphite	6%
Nickel	3%
Platinum	1%
Palladium	26%
Titanium	11%

The highest dependency is in chromite, palladium and titanium sponge. U.S. suppliers would have to seek supplies from South Africa, the Phillipines (chromite) to make up for the disruptions at premium prices. The disruptions would affect catalytic converters for cars and specialty steel production, but supplies can be compensated from within 3 to 9 months. The other dependencies are small and can be compensated from within 3 months.

Impact of Trade Embargo with USSR on U.S. Economy

Background

The balance of trade with USSR is heavily in the U.S. favor -- with exports at least 3-4 times greater than imports consistently over the last four years.

United States exports to the USSR (which are dominated by agricultural products) declined sharply in 1980 due to the sanctions imposed by the Carter Administration following the Soviet invasion of Afghanistan. In 1981, exports rose sharply, mainly as a result of the lifting of the grain embargo. In the absence of USG restraints, it is expected that exports (particularly grains) would expand further, by a large amount in 1982. In the manufacturing sector, exports are concentrated in a few product categories (e.g. tractors, phosphate fertilizer, pressure sensitive tape), and a few U.S. companies (e.g. Occidential, International Harvester, Caterpillar).

The patterns of U.S. exports to the USSR contrasts sharply with those of our major Western allies -- for whom steel and machinery are the major export items. Thus, our allies are a much more important source of manufactures for the USSR and their manufacturing sectors have a much larger stake in the Soviet market.

United States imports from the USSR have been primarily minerals and metals, although in recent years ammonia and refined petroleum products have accounted for a substantially larger share. Imports have dropped significantly in volume in 1980 and 1981 largely due to a decline in gold purchases.

The attached tables provide data on recent U.S. trade with the USSR.

Impact of Total Embargo

The impact of an embargo on trade with the USSR is summarized by sector on the attached chart.

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In total, we estimate that about $10 billion in export sales would be lost in 1982-83, with an accompanying loss of about 160,000 jobs. The impact on certain companies (e.g. Occidental and International Harvester) would be quite substantial.

Federal budget outlays for existing agricultural programs would increase by at least $6-8 billion and there would be pressure for additional or enhanced programs. Federal budget outlays and revenues would also be adversely affected by higher levels of unemployment. The Export-Import Bank would probably suffer a $180 million loss due to default on the Occidential contract.

Over the longer term, an embargo would cause loss of significant potential sales to the Soviet Union and to other countries and would encourage the spread of long term supply agreements in agricultural trade.

The attached paper by USDA describes the effects of an embargo in agriculture in detail.

Attachments

U.S. EXPORTS TO USSR
(Million dollars)

	1978	1979	1980	First Half 1981
Agricultural				
Yellow corn	1,053	1,402	602	387
Unmilled wheat	356	812	336	334
Inedible tallow	19	58	28	40
Soybeans	200	489	45	NA
Shelled almonds	NA	8	17	15
Sugar beets or cane	NA	NA	NA	11
Hops	NA	5	10	10
Subtotal of above	1,628	2,774	1,038	797
(as % of total)	72%	77%	69%	75%
Mineral				
Alumina	NA	NA	NA	8
Molybdenum ore	26	41	NA	8
Petroelum coke, calcined	18	14	20	21
Manufactures				
Tracklaying tractors & parts	NA	43	90	58
Other tractor parts	NA	2	10	15
Phosphoric acid	NA	93	17	14
Pressure sensitive tape	37	50	42	13
Parts for oil/gas drilling	28	28	NA	NA
Metal working machines, gear	NA	NA	NA	8
Belting & belts for machines	NA	2	13	8
Subtotal of above	65	218	172	116
(as % of total)	3%	6%	11%	11%
Total Exports	2,249	3,604	1,510	1,066
(above items as % of total)	77%	85%	81%	89%

U.S. IMPORTS FROM USSR
(Million dollars)

	1978	1979	1980	First Half 1981
Agricultural				
Sable furskins	8	9	6	3
Vodka	NA	NA	NA	3
Minerals/Metals				
Gold	286	548	86	18
Nickel	16	29	21	34
Palladium	28	62	54	18
Platinum metals	3	16	6	1
Chrome ore	7	11	4	2
Rhodium	8	9	6	2
Aluminum scrap	30	9	2	2
Metal coins	6	25	18	NA
Subtotal of above	384	709	197	77
(as % of total)	72%	81%	46%	35%
Manufactures				
Ammonia	27	56	95	40
Light fuel oils	NA	NA	NA	50
Napthas	NA	--	5	17
Total Imports	530	873	430	219
(above items as % of total)	79%	89%	70%	87%

SUMMARY OF IMPACT OF USSR TRADE EMBARGO
ON U.S. ECONOMY

SECTOR	IMPACT IN 1982-1983	LONGER TERM IMPACT
AGRICULTURE 1/	1 - Loss of $7 billion in export sales. 2 - Loss of over 100,000 jobs (and associated increased costs and revenue loss in federal budget). 3 - Increase in U.S. agricultural budget outlays by $6-8 billion. 4 - Higher costs for ammonia fertilizer, lower for phosphates. 5 - Depressed commodity price levels (to or below loan levels).	1 - Spread of long term trade arrangements. 2 - Foreign buyers will diversify away from U.S. sources due to loss of credibility of U.S. as supplier.
MANUFACTURES	1 - Loss of $3 billion in export sales and 60,000 jobs (and associated increased costs and revenue loss in federal budget). 2 - May well cause International Harvester to go bankrupt. 3 - Caterpillar would lose $200 million in sales and 1,000 jobs. 4 - Occidental would lose 1,600 jobs in phosphate industry and write off of possibly $60 million. 5 - Cut off of imports of mineral would cause increased costs to consuming industries (e.g. auto, specialty steel) seeking alternative supplies. 6 - Positive impact on U.S. ammonia industry. 7 - Loss to Export-Import Bank of $180 million (Occidental deal).	1 - Loss of substantial potential business (e.g. pipelayers. 2 - Loss of reliability of U.S. as supplier would discourage other purchasers. 3 - Loss of $400 million/year for remaining 15 years of Occidental market.
SERVICES	1 - Loss of $50-80 million in revenues to shippers. 2 - Potential adverse effect of U.S. banks holding credits to Soviets.	

1/ Assumes embargo would apply to Eastern Europe and USSR and no new government programs to aid farmers (which could add several billion dollars in budget outlays).

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SOVIET/EASTERN BLOC EMBARGO - ISSUES AND IMPACTS

Summary

The potential gains to be derived from a trade embargo with the Soviet Union and the Eastern Bloc countries appear small relative to the costs the United States would suffer. Such efforts in the past have not influenced Soviet foreign policy, but have hurt our agricultural trade, disrupted commodity markets, depressed commodity prices, and cost the Treasury large sums. A trade embargo with the Soviet/Bloc countries should not even be considered without first imposing a full embargo on credit from the West.

While in years of poor harvests the Soviets account for a large share of the world's wheat and coarse grain imports (nearly a fifth in 1981/82), their overall imports (nonagricultural and agricultural) make up only 3.3 percent of their GNP. Because half the Soviet's overall imports come from the Eastern European countries, any trade embargo action taken by the United States and its allies would have to also include Eastern Europe to prevent transshipment. Such an action would depress prices for farm commodities in this country because over 70 percent of our exports to the Soviet Union and Eastern Europe are agricultural products.

Our agricultural export sales to the USSR and Eastern Europe are projected to total about $4.8 billion in 1981/82. If the action were imposed immediately and across the board, agricultural export earnings would fall by over $2 billion in fiscal 1982, further aggravating the U.S. trade deficit and the position of the dollar internationally. We estimate it would cost the federal government $2-3 billion for 1981/82 to absorb the commodities that would otherwise have been exported. The reduction in exports would also mean the loss of over 100,000 jobs throughout the economy. In addition to making commodity loans to farmers, we would have to subsidize their storage and interest costs. Thus, the export-based underpinning of American farm income would be seriously weakened by an embargo. To compensate, it would cost the U.S. government more in price support and related outlays than the value of the exports lost due to the embargo. The whole structure of farm prices--including agricultural commodities not now exported to the Soviet Union and the Eastern Bloc--would shift downward.

The impact of continuing an embargo into 1982/83 is even more damaging to agriculture and related industries. We project agricultural exports would decline by over $5 billion in 1982/83. Commodity prices would fall at or below loan levels, increasing deficiency payments for grains and raising loan and reserve outlays sharply. Budget outlays for grains alone in 1982/83 would total $4-5 billion above levels expected in the absence of an embargo.

To limit taxpayer sacrifices in continuing to absorb the surpluses, the U.S. government would be forced into massive and costly acreage reduction programs. These programs would disrupt markets and impact on nearly all sectors of the U.S. economy: employment in industries supplying farm inputs would fall; rural communities would suffer as the volume of U.S. farm output declined; and gross farm income would fall. The longer the embargo were to continue, the more severe would become the dislocations.

U.S. agriculture's ability to produce would also be impaired by a total trade embargo. The Soviet Union and Eastern Europe account for 30 percent of

the world's nitrogen fertilizer production capacity. In 1980/81, the Soviet Union alone supplied the United States with half of its imported ammonia.

Coverage

If an embargo of only agricultural products were imposed, the Agriculture and Food Act of 1981 would require that the Secretary take steps to assure farmers of 100 percent of parity. It is important to note that in addition to grains, the U.S. also exports oilseeds, tallow, sugar, cattle hides, meats, animals, tobacco, etc. to the USSR and Bloc countries. Hence, there would be tremendous economic disruptions.

Implementation

In order to minimize disruptions to farm commodity markets, we recommend that exporters be allowed to deliver on contracts already written for shipment in 1981/82. Thus, about half of the grain and other agricultural products projected to be exported to the USSR and EE would still move. This would still imply about a 10-15 percent reduction in total U.S. grain exports for 1981/82.

Impacts on Agriculture and the Budget

With farm prices and incomes already depressed, an embargo would have a devastating effect in agriculture and related industries. The reduction in exports would mean the loss of over 100,000 jobs throughout the economy. The embargo would eliminate any opportunity for price strengthening in 1981/82 and would lead to a tremendous increase in loan and inventory outlays as well as a significant buildup in reserves. Unless offsetting actions were taken, corn prices would drop and average for the season near loan rate levels, about 10-15 cents per bushel below earlier expectations. Wheat prices would also be pushed near loan rate levels, about 50 to 60 cents per bushel below earlier projections. This would result in large additional movements of grain under government loan and into the farmer-owned reserve with additional budget outlays around $2 billion for these commodities alone.

A continuation of the embargo into 1982/83 would mean a reduction of nearly 25 percent in grain exports, with farm prices for grain averaging at or below the reserve loan rates. Soybean exports and prices would be similarly affected. Movement of this volume of grain into loan and reserve programs would result in twice as much grain in the reserve than earlier expected and budget outlays of about $4 to $5 billion. These increased outlays do not include the costs of any additional offsetting actions, such as contract purchases, direct grain purchases, paid land diversion programs, or higher support rates designed to minimize impacts on the sector as a whole.

Effectiveness of an Embargo

It is very difficult to get exporters to cooperate in a trade embargo. It would be particularly difficult in this case because of the linkage between Western Europe and the Eastern Bloc countries. West Germany is a major supplier, particularly of credit, to the Bloc. Moreover, our experience in managing embargoes has not been good. Mechanisms do not exist for making such actions effective. Reports by GAO and USDA's Inspector General conclude that the 1980 embargo with the USSR was virtually ineffective.

SECRET

Longer Term Impacts

The longer an embargo is allowed to stay in effect, the greater the problems that would emerge. Pressure for the government to take compensating actions on agricultural commodity prices would rise. Even then, any further actions to help farmers would have to be coordinated with the other supplying nations. The longer the embargo remains in effect, the more the exporters would be tempted to circumvent the embargo and thereby undermine the intent of the action. Irrespective of the duration of the embargo, the United States would find its foreign markets seriously eroded. Other suppliers and the Soviets would attempt to write bilateral agreements in order to tie up future trade to their advantage. Other importing countries, including our major trading partners, would also try to tie up and diversify the sources of their future requirements in formal agreements. Following the 1980 embargo, roughly 30 percent of the world's grain trade was estimated to be locked up by other exporting countries in the form of bilateral agreements, a sharp increase from the pre-embargo level.

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CONFIDENTIAL

MEMORANDUM 7440

NATIONAL SECURITY COUNCIL

December 30, 1981

CONFIDENTIAL

INFORMATION

MEMORANDUM FOR JOHN POINDEXTER

FROM: NORMAN A. BAILEY NB

SUBJECT: Preliminary Treasury Paper Involving Financial Measures Against the Polish Government and the USSR (C)

Attached (Tab I) is a preliminary Treasury paper on the subject. The other agencies participating in the Working Group are using the paper as a basis for their comments, which are due at the end of this week. The final report of the Working Group will be completed next week. (U)

In their preliminary study, Treasury draws three major conclusions:

1. A Polish default would cause problems for the international banking system but these problems would be manageable, although the Bundesbank might have to support two or three German banks. Impact on the German budget of having to make good on guaranteed loans would be substantial. (C)

2. A default of the entire Soviet Bloc would have severe and unpredictable effects on the Western banking system. Close coordination and rapid action would be required to limit damage. Even so, the panic effect might overwhelm such efforts. Budgetary impact would be substantial in several Western European countries. (C)

3. However, the likelihood of this is small. Although Romania (and Yugoslavia, not a Bloc member) would probably be forced into default, and there is some danger of this in Czechoslovakia and the GDR, there is no reason why Hungary, Bulgaria or the USSR would have to default except as a conscious political decision. Such a decision is unlikely because it would cut the whole Bloc off from external credit for the foreseeable future, rather than for a relatively limited period of time. (C)

I agree with the Treasury preliminary analysis pending comment from other agencies. (The CIA, incidentally, is doing a study of some of the possible political fallout.) (U)

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Review December 30, 1987

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Thus, I would summarize the pros and cons of invoking the exceptional circumstances clause of the offical debt rescheduling agreement as follows:

Pro

1. We should do it because the Poles have, in fact, violated the clause. We have an unassailable justification. (C)

2. Such an action would result in the full or partial fulfillment of a series of other possible steps. It could be substituted, for example, for a partial or full trade cutoff. The banks would redline the Soviet Bloc for a period, at least, and the Soviets and their allies would have to give up real, immediate resources for what they want to buy. (C)

3. This would be very painful at present because the gold price is weak and the satellites would have to be starved of Soviet oil so that more could be sold for hard currency. (C)

4. Whatever real resources the Soviets have to give up to import grain and other things would not be available for military expenditures and foreign adventures. (C)

5. This action would preempt our allies and force private bank action simultaneously. Even if our allies did not join us in a technology/oil and gas embargo, the Soviets would simply have little with which to purchase these items. (C)

6. It might kill the Siberian pipeline. (C)

7. Domestic opposition would be disarmed and muted, since the ultimate effects would not necessarily be immediately obvious. (C)

Con

1. Ripple effects in the Western baking system would be unpredictable in any case. (C)

2. We cannot definitely say that in retaliation the entire Soviet Bloc would not repudiate its external debt, triggering a financial panic in the markets at a time when banks and thrift institutions are weak anyway. (C)

3. Preempting our allies, however well justified, will anger them. (C)

4. The budgetary impact on West Germany may be such as to exacerbate the contradictions within the governing coalition and cause its downfall. [redacted] (C 25X6

5. It is an irreversible step, unlike most other action options. (C)

Allen Lenz concurs that the Treasury paper is a useful start. However, a more useful evaluation of the situation can be made after receipt and evaluation of other agency comments.

Attachment

Tab I Preliminary Treasury paper

Consequences for U.S. and Western Banking System of Financial Embargo against USSR

The explicit financial costs to the United States of pressuring U.S. banks not to undertake further lending to the USSR would depend largely on the Soviet reaction. It is unlikely that the Soviets would retaliate by repudiating their outstanding debt to U.S. banks, and under this assumption the explicit costs to the banks, assuming they complied with USG pressure, would be virtually nil since they would lend the money elsewhere. There would, however, be a substantial adverse but non-quantifiable psychological effect as a result of the reversal of existing U.S. policy not to interfere in the lending decisions of U.S. banks.

A USSR repudiation, if it occurred, would cause direct losses to U.S. banks of about $1/2 billion; their exposure relative to capital is in the one to four percent range (for eight large banks accounting for three-fourths of total claims). However, this act would probably not be confined to USSR debt but encompass most or all the Eastern Europe bloc. The bloc-wide exposure of U.S. banks is around $5 billion, or somewhat more than 10 percent of the aggregate capital of the internationally active U.S. banks -- the precise degree of exposure varies from bank to bank. U.S. banks would thus survive a repudiation, although at no small cost. The USG would absorb part of the cost in the form of tax writeoffs.

It is unlikely that the USSR could or would confine a meaningful repudiation to its debt to U.S. banks. Much of international bank lending is in the form of syndicated credits booked in Euro-currency centers outside the United States whose terms provide for sharing of payments received; even a limited repudiation would create great market uncertainty and bring further lending to the East from non-U.S. banks to a halt. Trade with the West would virtually cease. This probable consequence of repudiation virtually guarantees that the USSR would avoid that step as retaliation for a no lending policy urged by the USG on U.S. banks.*

If a global repudiation were to occur, U.S. banks would also be affected indirectly by the impact on non-U.S. banks. Non-U.S. banks are considerably more involved in lending to the Eastern bloc, particularly to the USSR. Precise data

* Further discussion of the impact of a bloc-wide default is contained in the attached paper (see pp. 4 and 5) prepared for another purpose on the Polish situation.

are not available because a large portion of banks' claims are guaranteed by their home government, but their non-guaranteed exposure, estimated at roughly $38 billion, is about eight times as large as that of U.S. banks. A number of European banks would probably require substantial assistance, and confidence in the international payments system would be impaired.

The adoption of other sanctions against the USSR would in any event greatly decrease the willingness of U.S. banks to lend to the USSR (and other bloc countries). Indeed, U.S. banks' outstanding loans and commitments to the USSR, and to the bloc generally, have declined by $1.1 billion -- i.e., by 15 percent -- over the past 18 months. Pressure on the banks to cease all new lending would accelerate this trend, although the scope for further reducing outstanding claims is limited by the fact that over half of outstanding claims as of mid-1981 were medium or long term.

Conclusion

Attempting to influence U.S. banks' decisions on lending would undermine the principle that banks are responsible for their decisions and would not be necessary since banks would be highly reluctant to lend in any event given the current circumstances (i.e., the political climate since Afghanistan and the increasing debt servicing difficulties of some East European countries). It is very likely that the specter of even more (non-financial) sanctions will be sufficient to dissuade U.S. banks from undertaking new lending.

Pressuring U.S. banks to halt lending to the USSR would have little effect on the Soviet financial position unless imposed by other Western countries as well. If it impacted multi-national syndicated credits in which U.S. banks are involved as well as bilateral U.S. lending, retaliation in the form of repudiation of debt would probably trigger bloc-wide default to all banks, with substantial losses to U.S. banks, devastating losses to non-U.S. banks, and severe impairment of the international banking system.

Even if the Soviets tried to limit repudiation to bilateral, non-syndicated loans from U.S. banks, the ensuing efforts of U.S. banks to attach Soviet assets could bring world-wide legal actions against the USSR.

Attachment: Potential Impact of the Polish Situation on International Banking System

Treasury/OASIA/IMB
December 24, 1981

POTENTIAL IMPACT OF POLISH SITUATION ON INTERNATIONAL BANKING SYSTEM

December 16, 1981

Summary and Conclusion

A default or even a less serious unilateral moratorium by Poland on its debt to commercial banks would constitute a profound shock and perhaps produce some difficulties for a few European banks. It would not create chaos in the international banking system because numerous cushions are built into the system. U.S. and U.K. banks would be hit fairly lightly; selected German and Austrian banks (and a few Latin American banks) are more vulnerable. The broader question of the impact of a Polish collapse on future lending to non-industrial countries is considerably more difficult to assess. Lending to Eastern European countries would be particularly affected if the USSR failed to bail out Poland. Lending to non-oil LDCs probably would not be significantly affected by a Polish default in itself, although banks could be expected to hold out for higher spreads and to avoid the poorer risks.

Debt repudiation by all of Eastern Europe 1/ would create a problem three of four times larger in terms of total exposure but an even greater problem in terms of shock to the system. It is less clear that more widespread difficulties could be avoided without the extraordinary intervention of the governments or central banks of the major industrial countries.

The Facts

The extent of the direct impact on private banks of Polish debt repudiation would depend on how much of the debt is guaranteed by official Western entities. Such data are not available on a comprehensive basis except for U.S. banks. As a rough estimate, perhaps one-third of claims of non-U.S. banks is guaranteed, giving the following exposure vis-a-vis Poland as of end June 1981.

	$ billions		
	All BIS Banks	U.S. Banks*	Other BIS Banks
Total Bank Claims	14.1	2.1	12.0
less Net Guaranteed (est.)	4.8	0.8	4.0
Total	9.3	1.3	8.0
Memoranda:			
Bank Liabilities	0.5	0.1	0.4
Unguaranteed Claims less Liabilities	8.8	1.2	7.6

* U.S. banks' liabilities derived from Treasury and Federal Reserve Branch data; credit commitments not included.

1/ In this paper, Eastern Europe is defined to exclude Yugoslavia.

There are 460 banks involved in the negotiations with Poland. Some 75 to 100 are from countries outside the BIS area. Among the latter, several large Latin American banks are said to have large exposures. (These are additional to the estimated $8 billion cited above.)

U.S. banks' exposure in Poland, excluding commitments 1/, was $1,270 million in mid-1981, according to the Country Exposure Lending Survey, down slightly from $1,461 million at the end of 1980. The ten U.S. banks with the largest dollar amount of exposure accounted for $900 million, ranging from two percent to six percent of their total capital 2/ with an average of 4 1/2 percent.

The exposure in Poland of non-U.S. banks is probably around six to seven percent of their aggregate capital but may be two or three times as large for a few individual banks. Also, some banks in Germany have experienced a substantial reduction in earnings over the past year and are thus particularly vulnerable to any losses from Polish loans. The British report exposure of their banks to be around four percent of capital.

Regulatory Treatment

A principal issue in the event of a Polish collapse will be the manner in which banks' exposure is treated in their balance sheets and income statements. There is some flexibility in the U.S. in the manner in which nonperforming claims are treated in the balance sheet, but less flexibility regarding the treatment of accrued interest in the income statement. In the event a country fails to service promptly the principal and/or interest on its obligations to U.S. banks, there need be no immediate writeoffs or increases in loan loss reserves. If the situation persists, bank examiners have discretion as to when and at what magnitudes they will require banks to start charging their balance sheets, although banks will normally have taken this step on their own. In previous similar cases (e.g., Sudan, Zaire), chargeoffs did not begin until sometime after the loans became non-performing, and even then chargeoffs were a small fraction of total exposure. The treatment of interest income, however, is less flexible. Interest that is in arrears by more than 60 days must generally be reversed out of income (and subsequent interest payments recorded on a current rather than accrued basis).

1/ of about $100 million. In the event of a default, commitments would presumably not be honored.

2/ Equity capital, subordinated debentures and loan loss reserves.

Moreover, arrearages on Polish debt have now existed for several months, and failure to reach agreement on a restructuring of debt service would perhaps result in provisions being made promptly. U.S. banks may establish provisions before any encouragement to do so from regulators because of their internal procedures, e.g., related to determining taxable income or in response to outside auditors.

Banks in Europe and Japan, however, could be expected to try to delay in writing down Polish exposure. So long as Poland was engaged in discussion of plans for servicing its debt, pressures in these countries to make provisions for Polish exposure in bank statements would be slight. On the other hand, if the Soviets were to invade Poland and either they or the Western governments refused to begin to deal with the matter of Poland's outstanding indebtedness, or if the Polish government ceased to function for other reasons, the pressures for some provision in bank statements for the outstanding indebtedness would mount rapidly. 1/

Interbank and Foreign Exchange Markets

Although a Polish crisis might have some temporarily unsettling effects for psychological reasons, there should be no longer-run technical factors that could upset the foreign exchange markets. To the extent that foreign banks find themselves short dollars because of interruptions in Poland's service of its dollar debt, the demand for dollars in the foreign exchange markets could increase somewhat, but most banks would have already anticipated non-receipt of scheduled payments. The tendency in the interbank market in the event of major disturbances is for individual banks to reassess the credit limits they maintain for other banks. If it appears that an individual bank might be especially impacted by Polish non-payment, that bank is likely to find it more difficult to borrow in the interbank market without paying some premium, thus further reducing its profitability. These effects, however, are not likely to be significant in a systemic sense -- if a crisis were limited to Poland -- because of the cushions in the system.

1/ A press report on December 14 indicated that the Deutsche Bank had created a contingency fund against bad loans to Poland -- to the surprise of the banking community. Other press reports indicated that a number of German banks may be lodging provisions against up to 20% of their loans to Poland.

Cushions

While U.S. banks as a group are not heavily exposed in Poland, a Polish default would require the principal lenders to absorb a fairly significant reduction in annual post-tax income -- as large as 15 to 20 percent. No U.S. bank would be likely to report negative income for the year solely because of provisions lodged against Polish debt. For many non-U.S. banks, there are large hidden reserves that could be used to reduce the impact of losses on Polish debt, and a significant overall loss on the income statement would be rare (except as indicated above for those German banks with already depressed earnings). It should also be noted that a number of non-U.S. banks are (or are about to become) government owned, including all major French and Italian banks as well as the German Landesbanks. In addition, the Japanese have a long record of support of and close cooperation with their commercial banks.

Central banks of major countries stand ready to assist their banks in the event of shocks that threaten confidence and impair functioning of the banking systems. In the international area, central banks have agreed on a division of responsibility with respect to supervision of the foreign affiliates, which now account for the bulk of international lending, and market practices imply that parent banks stand ready to back the obligations of their affiliates.

Impact of Bloc-wide Repudiation on Future Lending and on Overall Economic Relationships

The magnitudes involved in a bloc-wide repudiation of debt would make it difficult to eliminate the prospect of a significant loss of confidence even with adroit handling by central banks and careful packaging of these and other measures that governments might take. Using rough estimates for guarantees, the position of banks in the 14 countries reporting to the BIS vis-a-vis the Eastern bloc would be as follows at end June 1981.

($ billions)

	All BIS Banks	U.S. Banks*	Other BIS Banks
Total Bank Claims	57	5.4	52
less Net Guaranteed (est.)	14	0.6	14
Total	43	4.8	38
Memoranda:			
Bank Liabilities	9	0.8	8
Unguaranteed Claims Less Liabilities	34	4.0	30

* U.S. banks' claims and liabilities from Treasury and Federal Reserve branch data; credit commitments not included.

This exposure is probably spread among around 500 banks, principally in the G-10 countries. The bulk of the exposure in absolute terms will be with the very largest banks. About 80 percent of the unguaranteed claims of U.S. banks are with the 24 largest U.S. banks, and it would not be unrealistic to assume that two-thirds of the unguaranteed claims of non-U.S. banks are with the 34 largest foreign banks. (Nearly all of the Eastern bloc's deposits would be with this group of 58 banks.) The uncovered exposure in Eastern Europe (based on Country Exposure Lending Surveys) of the largest U.S. banks amounted to approximately 11 percent of their combined capital and less than 1/2 percent of their combined assets as of the end of 1980. (These ratios appear to have declined in the first half of 1981.) By comparison, the Eastern bloc exposure of the largest foreign banks would represent about 25 percent of their aggregate capital and less than one percent of their total assets.

Variations from bank to bank in the degree of exposure to the Eastern bloc would result in some non-U.S. banks suffering losses of a substantial portion of their recorded capital in the event of repudiation. Although U.S. banks would be able to survive the direct impact, they would suffer indirectly from any substantial difficulties of other banks. Repudiation would be likely to precipitate a change in the attitudes and lending policies of the banks vis-a-vis other high risk areas of the world, and it might even lead other countries to declare unilateral moratoria on their own debt.

Repudiation of bloc debt would probably have another major global implication. Such an act would virtually guarantee complete Eastern bloc isolation from the Western economies. Not only would the bloc's deposits in banks be frozen, but in view of the inadequate coverage of bloc debt, all other bloc assets (goods, ships, etc.) anywhere in the free world would be subject to attachment. Trade would come to a halt. Moreover, it would be difficult to restore trade even if a solution to the debt problem was subsequently achieved, and, as was the case with Iran, extraordinary measures would be required to restore East-West commerce. This could prove the most important -- perhaps a sufficient -- deterrent to debt repudiation.

In conclusion, the size and distribution of the East European exposure of large banks is of significant scope and importance. In the unlikely event of a bloc-wide default, direct financial assistance to some foreign banks would almost certainly be necessary.

December 1, 1981
updated December 16, 1981

EXPOSURE 1/ OF U.S. BANKS vs. EASTERN EUROPE

$ millions

	Bulgaria	Czech.	GDR	Hungary	Poland	Romania	USSR	Total
				CHANGE				
1980								
claims	-132	-55	-34	-121	49	-33	-216	-542
commitments	-15	-6	-38	118	-116	3	10	-44
total	-146	-61	-73	-3	-67	-29	-206	-586
Jan - June 1981								
claims	-108	17	-15	115	-189	60	-13	-135
commitments	19	-2	-87	-123	-26	-49	-88	-355
total	-89	15	-102	-8	-216	11	-102	-490
				POSITION				
June 30, 1981								
claims	315	199	1341	1001	1272	364	478	4970
commitments	33	31	71	64	109	129	361	798
total	348	230	1412	1065	1381	493	839	5768

1/ By country of guarantor, i.e., adjusted for guarantees of claims on indicated country extended by residents of other countries and for claims on other countries guaranteed by residents of indicated country.

Source: Country Exposure Lending Survey

November 27, 1981

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Net Position of BIS-Area Banks vs. Eastern Europe end-June 1981
$ millions

	U.S. Banks 1/			Non-U.S. Banks			Total		
	Claims	Liabilities	Net Claims	Claims	Liabilities	Net Claims	Claims	Liabilities	Net Claims
lbania	1	n.a.	1	1	74	-73	2	74	-72
ulgaria	308	30	278	1,831	729	1,102	2,139	759	1,380
zechoslovakia	197	62	135	2,976	746	2,230	3,173	808	2,365
DR 2/	1,038	188	850	8,590	1,628	6,962	9,628	1,816	7,812
ungary	922	158	764	5,701	820	4,881	6,623	978	5,645
oland	2,021	94	1,927	12,088	452	11,636	14,109	546	13,563
omania	406	183	223	4,702	136	4,566	5,108	319	4,789
SSR	480	87	393	13,663	3,530	10,133	14,143	3,617	10,526
esidual 3/	0	0	0	2,234	430	1,804	2,234	430	1,804
OTAL	5,373	802	4,571	51,786	8,545	43,241	57,159	9,347	47,812

/ Data are for U.S. parent offices and their foreign branches and are drawn from Treasury TIC and Federal Reserve 2502 S reports.
/ Excludes position of banks located in the Federal Republic of Germany.
/ Position of banks located in Switzerland vs. all Eastern European countries.

November 25, 1981

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U.S. Claims and Liabilities Vis-a-Vis Poland
($ millions)

.ition as of date in parentheses	Claims	Liabilities	Net Claims
.S. Banks' Position (9/30/81)	1,887 1/	144	1,743
Head Offices	(578)	(118)	(460)
Overseas Branches	(1,309)	(26)	(1,283)
Custodial Holdings by (9/30/81)			
U.S. Head Offices	13	12	1
Long-term USG Securities (9/30/81)			
and Corporate Securities	nil	nil	-
Non-banks' Financial and			
Commercial Position (3/31/81)	23	6	17
U.S. Government (6/30/81)	739	nil	739
Eximbank	(227)		
CCC	(506)		
AID	(6)		
Direct Investment (12/31/81)	nil	nil	-
TOTAL	2,662	162	2,500

Memorandum:
Contingent U.S.G. Liabilities
(6/30/81) 1,083 2/
- Under CCC Programs 1,066
- Under EXIM Programs 17

1/ Including guaranteed claims but excluding commitments.
2/ These contingent liabilties represent guarantees of private contracts with Poland and would be replaced by U.S.G. claims on Poland to the extent that Poland defaulted on these contracts. A large portion is already reflected in the claims of U.S. banks shown above.

November 30, 1981

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RESCINDING THE INTERNATIONAL HARVESTER EXPORT LICENSE

The Special Situation Group, at its meeting of December 28, recommended that the already issued license for the export of International Harvester blueprints, plans, engineering and technical assistance to the Soviet Union for the design and construction of a plant to manufacture agricultural combines be rescinded. This was the only recommendation of the Special Situation Group on which the President reserved decision. This memorandum outlines the project and summarizes the arguments pro and con.

Background

A license has been issued to International Harvester to provide the Soviet Union with plans and engineering and technological assistance over a five-year period for the design and construction of a plant to manufacture agricultural combines. Contracts have not yet been signed. Financing of the project has not yet been arranged by the Soviets and no deliveries have taken place as yet. The total cost will be about $300,000,000, of which $10,000,000 will be paid upon signing. This is almost pure profit to International Harvester because their costs will be negligible. The plant will produce 30,000 combines per year, or about 24% of current Soviet production. (C)

Arugments in Favor of Rescinding the License (Basically the Department of Defense position, concurred in by State, USUN, CIA, Treasury and NSC.)

-- The proposed plant will significantly improve Soviet grain harvesting efficiency, saving them foreign exchange and reducing their need for grain imports. (C)

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-- The plant may replace one already existing in the Taganrog industrial complex, which might then be converted to the production of armored personnel carriers or bridging equipment. (C)

-- It will be difficult for us to argue to our COCOM partners that controls should be tightened if we go ahead with this sale. (U)

-- Our farmers will lose sales and the Soviets will have more hard currency with which to buy military-related technology. (U)

Arguments Against Rescinding the License (Department of Commerce position, concurred in by USTR.)

-- Since the license has already been issued, this case is in a completely different category from all the other decisions made by the Special Situation Group. Singling out this transaction for differing treatment will bring our credibility with the business community into question. (S)

-- Klaus, a German firm, will sell similar technology to the Soviets if International Harvester is prohibited from making the sale. (S)

-- Loss of this project may cause a collapse of International Harvester's debt rescheduling with its banks, forcing bankruptcy on the company. (S)

-- Loss of the project will directly cost 300 jobs, International Harvester estimates, not to mention additional job loss should International Harvester go bankrupt. (U)

-- Because no "high technology" is involved in this transaction, denying this export will weaken, rather than strengthen, credibility with our allies on our initiatives to tighten COCOM high technology controls.

-- The plant has no military significance and cannot be easily converted to the production of APCs. (S)

Tab D

SECRET/SENSITIVE

MEASURES TO BE TAKEN AGAINST THE SOVIET UNION

Based on the recommendations of the Special Situation Group on December 28, 1981, the President has made the following decisions on actions to be taken immediately against the Soviet Union in response to their continuing involvement in repression within Poland:

- Suspend all Aeroflot service to the United States.

- Close the Kama River Purchasing Commission.

- Suspend the issuance or renewal of licenses for the export to the USSR of electronic equipment, computers and other high technology materials.

- Postpone negotiations on a new long-term grains agreement.

- Suspend negotiations of a new US-Soviet maritime agreement and implement a new regime of port-access controls for all Soviet ships when the current agreement expires on December 31, 1981.

- Require licenses for the export of an expanded list of oil and gas equipment (including pipelayers). Suspend issuance of such licenses. Oil and gas equipment will remain on the foreign policy control list for the time being.

- Do not renew US-Soviet exchange agreements coming up for renewal in the near future, including the agreements on energy and science and technology. There will be a complete review of all other US-Soviet exchange agreements.

The following items are approved but will not be made public:

- Attempt to assist Caterpillar in selling the 200 pipelayers scheduled for sale to the Soviet Union without incurring any legal liability for the US Government.

- Escalate radio broadcasting and anti-jamming activities toward Poland and the Soviet Union. Dedicate more radio transmitters, as feasible, on broadcasts to Poland.

- Call for an emergency meeting of the CSCE. Seek condemnation of Poland and the Soviet Union in the ILO.

- Continue policy established after Afghanistan invasion of no fishing allocations to the Soviet Union.

SECRET/SENSITIVE
Review on December 31, 1987

- Review whether or not the Secretary of State meeting with Foreign Minister Gromyko should be cancelled or rescheduled earlier.

- The Economic Working Group on Poland will study the invocation of the "exceptional circumstances clause" of the official debt rescheduling agreement as an option.

- CIA is to develop an inventory of items that the Soviets need most and items that would damage them most by embargoing.

- Continue INF talks.

- Conduct consultations with the PRC.

In all of the above actions attempt to have Allies join us as appropriate.

The items listed below are additional items that can be considered if conditions do not improve in Poland and/or there is an overt Soviet action.

PHASE I

A. Expel all Soviet commercial representatives, close their offices and close our commercial offices in the USSR.

B. Reduce Soviet diplomatic representation in the United States. Mandate that the Soviets can have no more diplomats in Washington than we do in Moscow. Reduce levels in both places.

C. Seek condemnation of the Soviet Union in the United Nations.

D. Discourage tourist travel to the USSR.

E. Take overt action to initiate worldwide grain embargo against the Soviet Union.

F. Begin overt talks immediately with our Allies to have the Siberian Pipeline Project cancelled.

PHASE II

A. Impose a total embargo on all high technology items to the Soviet Union.

B. Walk out of CSCE meeting in Madrid after denouncing the Soviets.

C. Recall Ambassador Hartman.

D. Announce US refusal to set a date for the start of START negotiations.

E. Conduct high-level, high-profile consultations with the Chinese.

F. Execute the special circumstances clause on Eastern European debts.

PHASE III

A. Announce we consider the Helsinki Final Act null and void.

B. Pull out of the MBFR negotiations.

C. Impose a total trade embargo on the USSR.

D. Ask Ambassador Dobrynin be recalled to the USSR along with the return of Ambassador Hartman.

E. Close US ports to Soviet ships.

F. Military Options - discuss.